

PHILIPPINES ECONOMIC WRAP-UP

MARCH 10-16, 2001

Summary

While the Philippine peso depreciated only slightly and interest rates fell, The Philippine stock market was dragged down by pressure on regional and international markets. Despite earlier suggestions that a bill to restructure the Philippine power industry would be taken up before national elections in May, it now appears that the congress will not take up the legislation until early June. We report on a proposal to combat money laundering by requiring foreign owners of foreign currency accounts in the Philippines to 'voluntarily' waive the secrecy of those accounts. We note that the Department of Trade and Industry is, at least temporarily, opening the Philippines to expanded imports of SKD vehicles. In a bizarre epilogue to the collapse of Orient Bank more than two years ago, an appeals court has ordered that the bank be reopened (ignoring the fact that the bank has been liquidated, almost all depositors paid off, and all its branches sold). In other banking notes we explore a proposal to establish an Asset Management Company to improve bank liquidity (which faces significant capitalization challenges) and a proposal to allow banks to securitize long-term deposits. We also report on some new joint ventures and investments that seem to signal stronger business confidence in the Philippines.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our February 2001 Economic Outlook, which is now available on our web site.

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Market and Policy Developments

FOREX REPORT

The Philippine peso depreciated slightly against the U.S. dollar through the week, mostly on regional concerns. The peso, which closed on March 9 at P48.065/US\$, ended the week at P48.50/US\$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
FEB 05	49.161	49.110	62.5
06	48.857	48.610	161.0
07	48.706	48.580	139.1
08	48.284	48.250	187.5
09	48.052	48.200	120.6
 FEB 12	 48.140	 47.820	 167.5
13	47.674	47.630	131.1
14	47.583	47.955	131.0
15	47.889	47.490	267.5
16	47.550	47.550	125.6
 FEB 19	 47.672	 47.850	 90.4

20	47.801	47.630	153.1
21	47.925	48.120	138.0
22	48.234	48.350	222.1
23	48.323	48.160	170.5
FEB 26	48.094	48.230	125.0
27	48.263	48.265	129.5
28	48.286	48.280	93.7
MAR 01	48.374	48.470	100.1
02	48.490	48.340	125.5
MAR 05	47.812	47.670	114.5
06	47.666	47.660	121.1
07	47.799	47.905	140.5
08	48.002	47.910	163.0
09	47.982	48.065	164.5
MAR 12	48.177	48.145	138.8
13	48.159	48.160	130.8
14	48.141	48.200	66.0
15	48.367	48.430	148.5
16	48.627	48.500	149.2

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

At the March 12 auction of T-Bills, interest rates on the government papers fell significantly on the back of a 50 basis point cut in key policy rates announced by the Bangko Sentral ng Pilipinas (BSP, the central bank) last week. Interest rates on 91-day T-bills fell 43.5 basis points to 9.893%. The 91-day T-bill interest rate has not been below 10% since October 16, 2000. The interest rate on the 182-day bill fell 57.7 basis points to 10.983%. The 364-day bill interest rate, however, staged the steepest drop, sinking 66.5 basis points to 12.453%. Bank and market liquidity are still high, evidenced by the more than P11 billion worth of bids received for the P4 billion worth of bills that were offered. Average commercial bank lending rates fell accordingly, leading to hopes of revived bank lending and corresponding investment growth.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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FEB 05	10.863	12.174	12.694
FEB 12	10.607	11.913	12.632
FEB 19	10.525	11.900	12.500
FEB 26	10.456	11.783	12.497
MAR 05	10.328	11.560	12.453
MAR 12	9.893	10.983	11.788

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
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FEB 08	15.8376	12.50 - 19.00
FEB 15	15.2550	12.25 - 19.00
FEB 21	14.9393	12.25 - 19.00
MAR 01	14.5759	12.25 - 19.00
MAR 08	14.3913	12.00 - 19.00
MAR 15	13.6914	11.50 - 15.25

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Philippine equities prices, already hurting from a weak corporate profit reports, took a further beating this week as markets around the world reeled on fears of a global slowdown. The market sank for eight straight sessions, staging only a small recovery (inspired by the rebound in Tokyo's Nikkei average) on March 16 to break the trend. The 33-share Philippine Stock Index (PHISIX) closed at 1498.32 on Friday, March 16, a 5.67% decline from its March 9 close of 1588.39. The last time the index closed below 1500 was immediately before the collapse of the presidency of Joseph Estrada on January

20. Trading volumes remain miniscule; the value of shares traded on March 12 (P196 million) was the lowest since 1994.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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FEB 05	1652.08	352
06	1664.23	652
07	1659.25	441
08	1683.44	764
09	1695.59	995
 FEB 12	 1712.06	 734
13	1692.27	556
14	1687.74	622
15	1688.05	534
16	1689.91	950
 FEB 19	 1673.96	 444
20	1659.08	369
21	1654.86	378
22	1641.05	485
23	1647.00	595
 FEB 24	 1636.04	 498
25	1632.30	344
26	1613.49	995
MAR 01	1570.20	735
02	1596.97	499
 MAR 05	 1616.54	 614
06	1611.47	328
07	1612.81	312
08	1589.57	223
09	1588.39	613
 MAR 12	 1567.53	 196
13	1526.40	348
14	1523.79	266

15	1491.79	383
16	1498.32	309

Source: Philippine Stock Exchange

POWER RESTRUCTURING -- WILL THEY OR WON'T THEY?

President Gloria Macapagal-Arroyo has called for a special session of Congress the week of March 19 to consider extending voter registration dates for the upcoming May 14 national elections. There had been widespread speculation that legislation to restructure the electric power industry would also be taken up during the session. Several administration officials, in fact, told visiting members of a U.S.-ASEAN Business Council Delegation in late February that the legislation would be raised during a special session of Congress before the May elections. Several recent statements, from the President to the legislature, however, have thrown cold water on that hope. President Arroyo told reporters on March 13 that completion of the legislation required a "full options study" which is still ongoing. Senator John Osmena, an opposition candidate running for re-election and the current chairman of the Senate Energy Committee, said he was in no particular rush to finalize a bicameral report as there was no call for consideration of the legislation in the special session. And House of Representatives Speaker Feliciano Belmonte Jr. told reporters on March 15 that he expected to schedule House deliberations on a final bicameral report sometime in early June.

UPDATE ON ANTI-MONEY LAUNDERING MEASURES

The Bangko Sentral ng Pilipinas is strongly supporting a proposal by the Bankers Association of the Philippines (BAP) to require non-resident holders of foreign currency deposit accounts in the Philippines to sign a "voluntary secrecy waiver". BSP officials told the Embassy that their agency had solicited banks' cooperation and suggestions on non-legislative measures to discourage money laundering. The general idea behind the proposed

waiver is to allow banks operating in the Philippines to disclose information about "suspicious" foreign deposit accounts of non-residents at the request of foreign governments. The BAP is working on the details of the scheme, which could be implemented in another month or two.

In June 2000, the Paris-based Financial Action Task Force (FATF) listed the Philippines as one of 15 "non-cooperative countries and territories" in the global drive against money-laundering. (The full report, and other information, is available at <http://www.oecd.org/fatf>.) Governor Buenaventura does not expect the proposed secrecy waiver to get the Philippines off that list, but hopes the move will at least demonstrate continuing efforts to institute reforms. The BSP has adopted several administrative measures aimed at discouraging money laundering over the past nine months (including suspicious transactions reporting and stricter customer identification requirements). The major obstacles, however, are legislative. Current laws make it virtually impossible for regulators to examine deposit accounts, whether of residents or non-residents. Although the matter remains contentious, the BSP has been pushing in the Philippine Congress for revisions in its charter to allow access to questionable accounts and deposits.

SKD IMPORTS OPENED UP

Trade and Industry Secretary Manuel Roxas has announced that the Board of Investments (BOI) will accept applications for the importation of semi-knocked down (SKD) automobiles from assemblers who felt aggrieved by a December 2000 decision of the Office of the President to allow DaimlerChrysler-Norkis to import 7,000 SKD automobiles over 3 years. BOI has not specified how many SKD automobiles it will allow assemblers to import at the preferential 3 to 5 percent tariff rate, but, according to Roxas, the imports are a short-term measure intended to level the playing field. Assemblers who take advantage of this preferential tariff rate are supposed to begin full assembly of automobiles within 18 months.

ORIENT BANK (THE LATEST TWIST)

The Court of Appeals (CA) reversed a trial court ruling which sustained government regulators' decision to close and liquidate Orient Bank. Orient Bank was the first of two commercial banks to have closed during the Asian crisis. It declared a bank holiday in February 1998 after suffering from heavy withdrawals. The bank was eventually placed under the receivership of the Philippine Deposit Insurance Corporation (PDIC) in October of that year. In its recent decision, the CA ordered the BSP to seriously evaluate and consider a January 1999 revised rehabilitation plan submitted by Orient Bank -- which, in the court's judgement, the Monetary Board (the BSP's policy making body) had hastily rejected. The CA raised other questions on Orient Bank's alleged bankruptcy and the manner the bank was liquidated. The CA ordered the BSP and PDIC to refrain from enforcing mortgage foreclosures or writs of attachment against Orient Bank until final resolution of its application for rehabilitation.

BSP and PDIC intend to file a motion for reconsideration before the CA and, if necessary, an appeal to the Supreme Court. According to bank regulators, an examination of the bank's books showed Orient Bank to be insolvent and revealed significant irregularities, mismanagement, and violations of BSP prudential regulations (including excessive lending to directors, owners and related parties). They also maintained that Orient Bank was given every opportunity to present a viable rehabilitation plan -- including searching for a "white knight" -- during its long bank holiday.

BSP and PDIC officials noted that much had already transpired since the BSP ordered Orient Bank's liquidation in October 1999, making a reopening impractical, if not impossible. Most of the bank's assets have already been sold. PDIC has settled claims of insured depositors. Allied Bank (a commercial bank) has since acquired Orient Bank's license to operate the latter's more than 50 branches; as well as shouldered some of Orient Bank's liabilities to uninsured depositors.

In reaction to this latest legal development, Bank of Commerce officials (BoC) were quoted in press reports as saying "this is precisely what we wanted to avoid". In late February 2001, BoC backed out of an agreement to acquire and rehabilitate Urban Bank (a commercial bank which closed in April 2000). In stepping aside, BoC cited legal issues and questions recently brought before the courts surrounding Urban Bank's closure. Unless quickly resolved, there are concerns that this latest twist in the Orient Bank case could also affect Urban Bank's prospects.

BANKING NOTES

Asset Management Company for Bad Loans: The BSP strongly supports the idea of a third-party "asset management company" (AMC) to dispose of banks' non-performing loans (NPLs). That proposal was reportedly "revived" by the new head of the Philippine Social Security System, who had first raised the idea about two years ago. By purchasing delinquent loans from banks at various discounts (depending on quality and collectibility), an AMC would generate loanable funds, accelerate the clean-up of banks' balance sheets, and reduce dependence on liquidity assistance from the BSP. The commercial banking system's NPLs stood at P246 billion as of end-2000 (15.1% of their loan portfolio). Some government officials have already expressed support for the scheme. However, they pointed out that tight finances would prevent the government from taking the lead in setting up an AMC. They also noted that a government-run AMC could raise questions on transparency. It remains to be seen whether the proposal -- first bogged down by funding issues -- will prosper this time around.

Securitization of Long-Term Deposits: The BSP is considering a proposal by the BAP to allow banks to "securitize" long-term deposits as a means improving the country's low domestic savings rate. Under the proposal, banks could issue certificates of deposits (CDs) for five-year accounts or more, which could be traded in the secondary market (perhaps even listed on the Philippine Stock Exchange). BSP officials noted that the scheme would give long-term depositors an "exit mechanism" should there be a need to liquefy funds before maturity.

They observed that savers normally hesitated to tie up their funds in longer-term deposit accounts despite their higher yields. Besides operating details, the proposal has raised tax questions which need to be resolved. Peso deposits of at least five years enjoy certain tax perks - but how will they be treated if traded on the secondary market?

JOINT VENTURES WITH FOREIGN COMPANIES ONGOING

JG Summit Holdings Inc., the investment arm of taipan John Gokongwei, has earmarked \$600 million this year (triple the company's investments last year) to expand its airline and telecommunication concerns. Some \$300 million will finance entry of Digital Telecommunications Inc. into the competitive wireless business. Joining Digitel in this project is foreign partner Canadian telecommunications supplier Nortel Networks. The other \$300 was earmarked for Cebu Pacific Airline's possible designation as the country's second flag carrier. The company's executive VP, Lance Gokongwei has said they expect the government to favorably act on their application within 5-6 months. However, he declined to comment on whether his group is negotiating with a foreign airline to support its bid to fly overseas.

Uni-President Group of Taiwan (65%) and food and beverage conglomerate RFM Corp. (35%) have agreed to jointly engage in the manufacture of instant noodles for export and domestic consumption. The P400-million manufacturing plant will occupy a two-hectare area at RFM's technology park south of Manila. Bullish on the Philippines, this is the second investment venture in the country of Uni-President group, the mother company of President Chain Store, which had joined the liberalized local retail trade sector through Seven-Eleven convenience-store chain.

Purefoods-Hormel Co, a joint venture between Ayala's food manufacturing arm and Hormel Foods Corp. of the U.S., is investing about P1.35 billion to build a new meat processing plant in Laguna. Targeted for completion by mid-2002, this second plant is intended to double the firm's production capacity and boost sales which hit P5.5 billion last year.

MORE INVESTORS COMING IN

Samsung Electronics of South Korea will invest some P2 billion in building a new factory to expand its electronics-manufacturing project in the country, according to press reports. Administered by the Philippine Economic Zone Authority (and granted tax and fiscal incentives), Samsung will initially manufacture rewriteable CD drives, expected to generate over US\$700 million in annual exports to the U.S., Europe and Asia. Samsung's new factory will employ 1,140 people. Samsung's offices in the Philippines will serve as supervision, communication and coordination center for its affiliates, subsidiaries and branches in Korea, Malaysia and Singapore. Samsung has registered this center with the BOI as the company's regional headquarters.

Lockheed president Robert Young has informed President Gloria Macapagal-Arroyo that Lockheed, in partnership with Asian Aerospace Corporation, will put up an aircraft service center inside the former Clark Air Base. Leading a US business delegation courtesy call on the President, Mr. Young asserted that, once operational, the project would bring in substantial foreign investments, generate thousands of job opportunities, and promote technology transfer. The entry of one of the world's biggest aircraft manufacturers is hoped to help develop the sprawling former US facility into a hub for international airlines.

A tourism estate made up of hotels, marinas, retirement homes for foreigners, and other tourism-oriented establishments may soon rise in Negros Oriental (in the central Visayas). International Access Corporation (IAC) chair Cecilia R. Gonzalvez presented this project proposal to President Macapagal-Arroyo in expression of IAC's full support for the new administration's economic policies.